



# Where Have All the Dollars Gone?



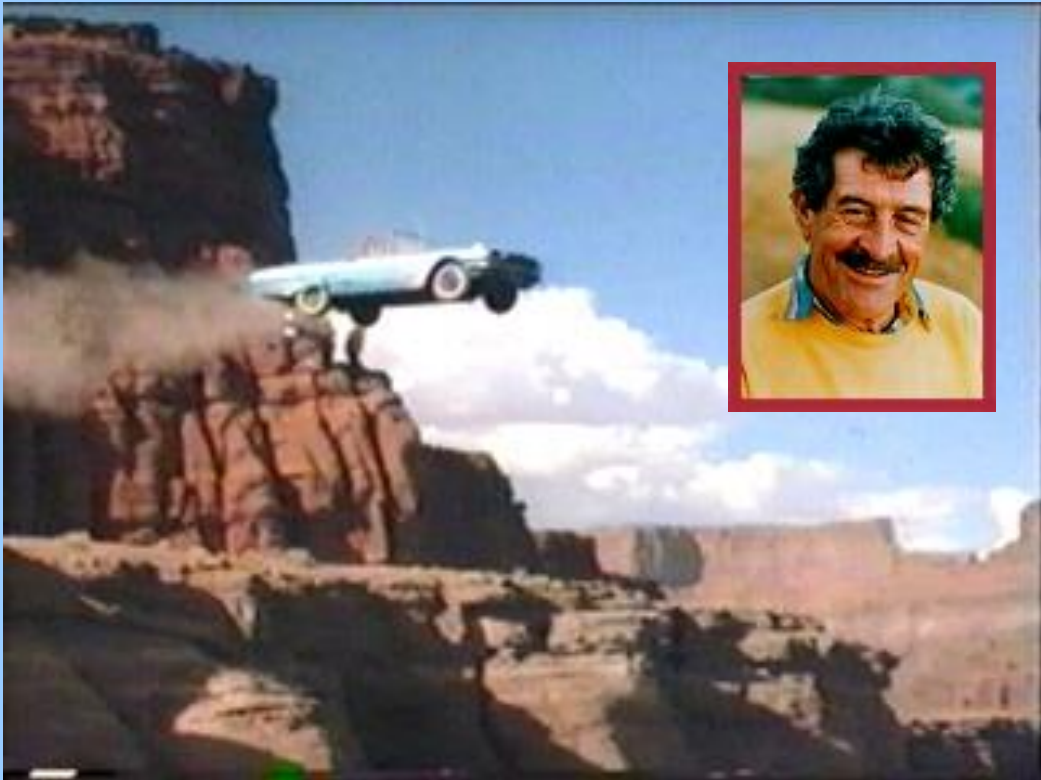
**UCLA  
Faculty  
Assn.**



**Jan. 30,  
2004**

# John Vasconcellos

## Dem. Senator - San Jose



***“I have never been so frightened  
about California’s future as I am  
now. The ingredients seem to be  
here to take the state right over the  
cliff.”***

# Keith Richman Rep. Assemblyman - Northridge



*“Without bipartisan  
cooperation, we are headed for  
a fiscal train wreck.”*



Now Available

THE COMIC BOOK OF THE YEAR  
ARMAGEDDON





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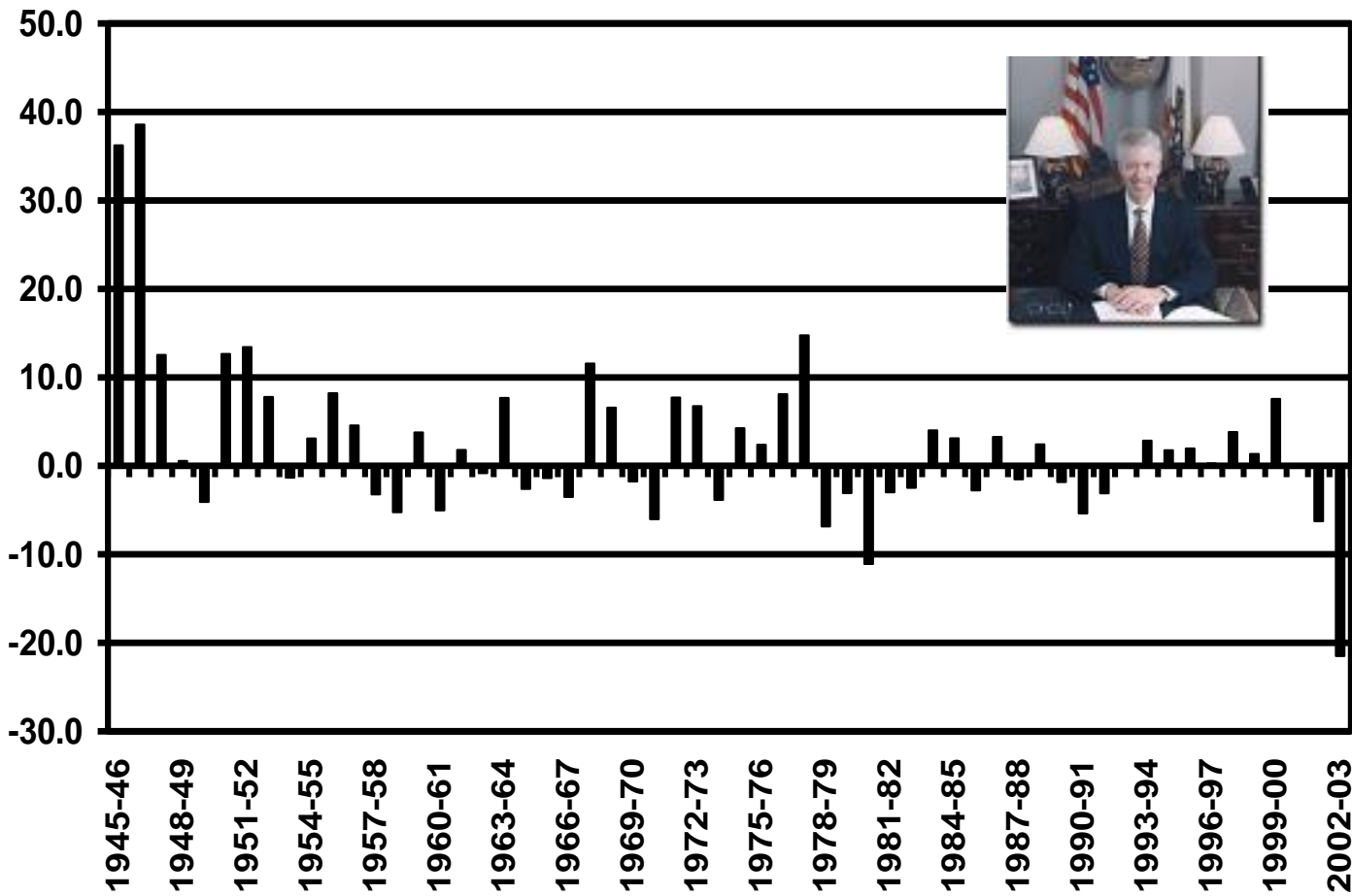
# Where Have All the Dollars Gone?



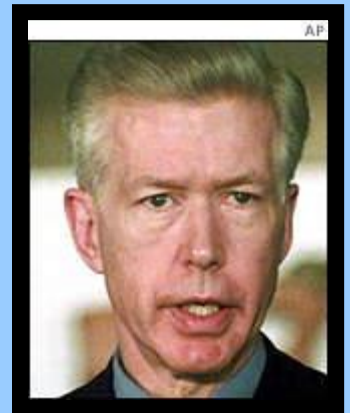
**And how  
many UC  
dollars  
are we  
talking  
about?**

## General Fund Surplus or Deficit as Percent of Revenues & Transfers

CPObudget2004.xls  
Surplus%

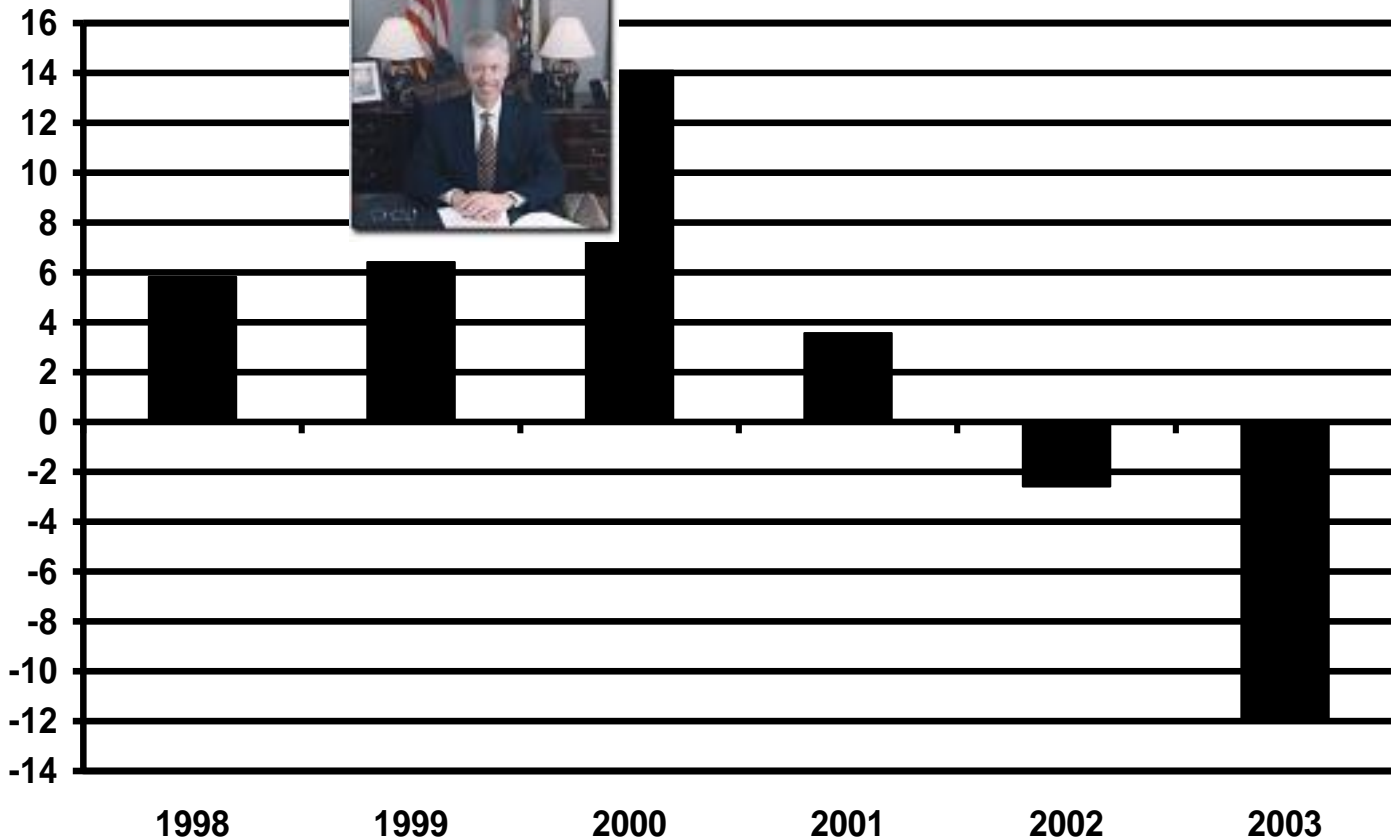


# What happened?

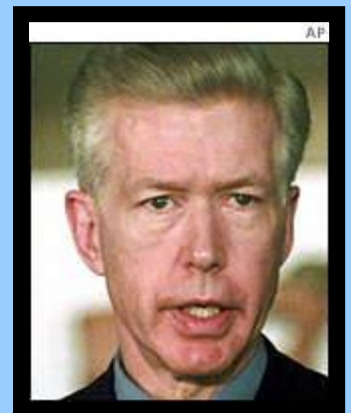


**Official Reserve as Percent of Expenditures: June 30 of Year Shown  
Excluding Proposed Deficit Finance for 2002-03**

CPObudget2004.xls  
offresrv



**What  
happened?**





## A pyramid of playing cards is shown against a sunset sky. The pyramid is built with various cards, including red and black suits. Several cards are flying off the top of the pyramid, including a 2 of hearts, a 3 of hearts, and a 4 of spades. The background is a bright orange and yellow sunset sky with some clouds. The ground is a flat green surface.


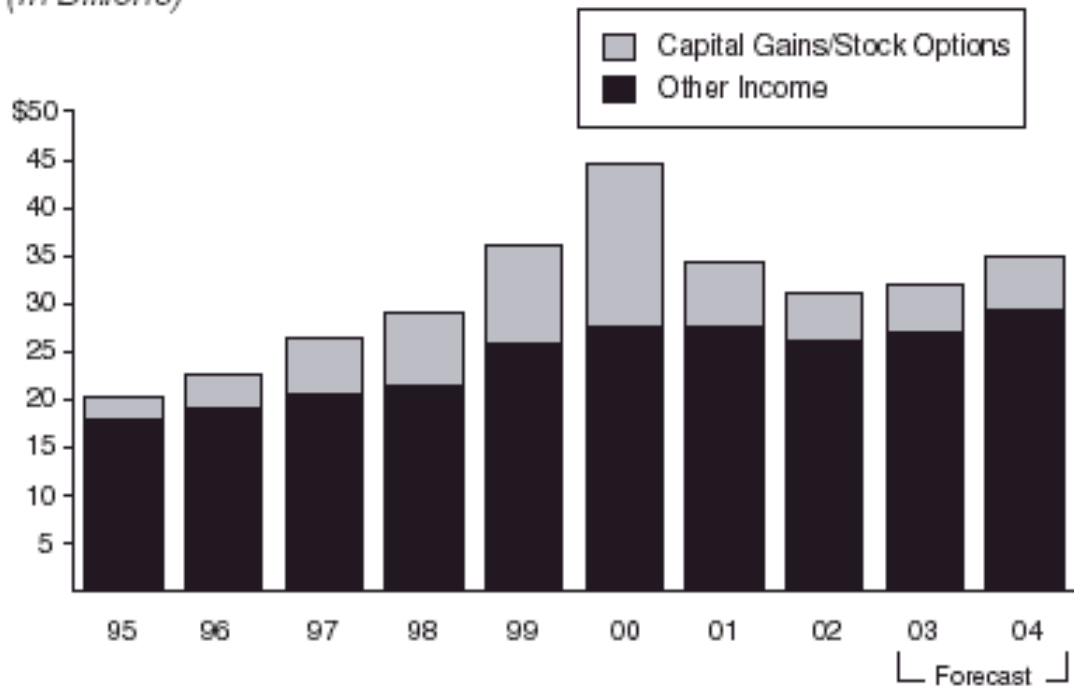
- in June 2004; high  
all over  
may not appear  
payroll difficult to**
- CONSTITUTION  
STATE of CALIFORNIA.  
Article I.
- 



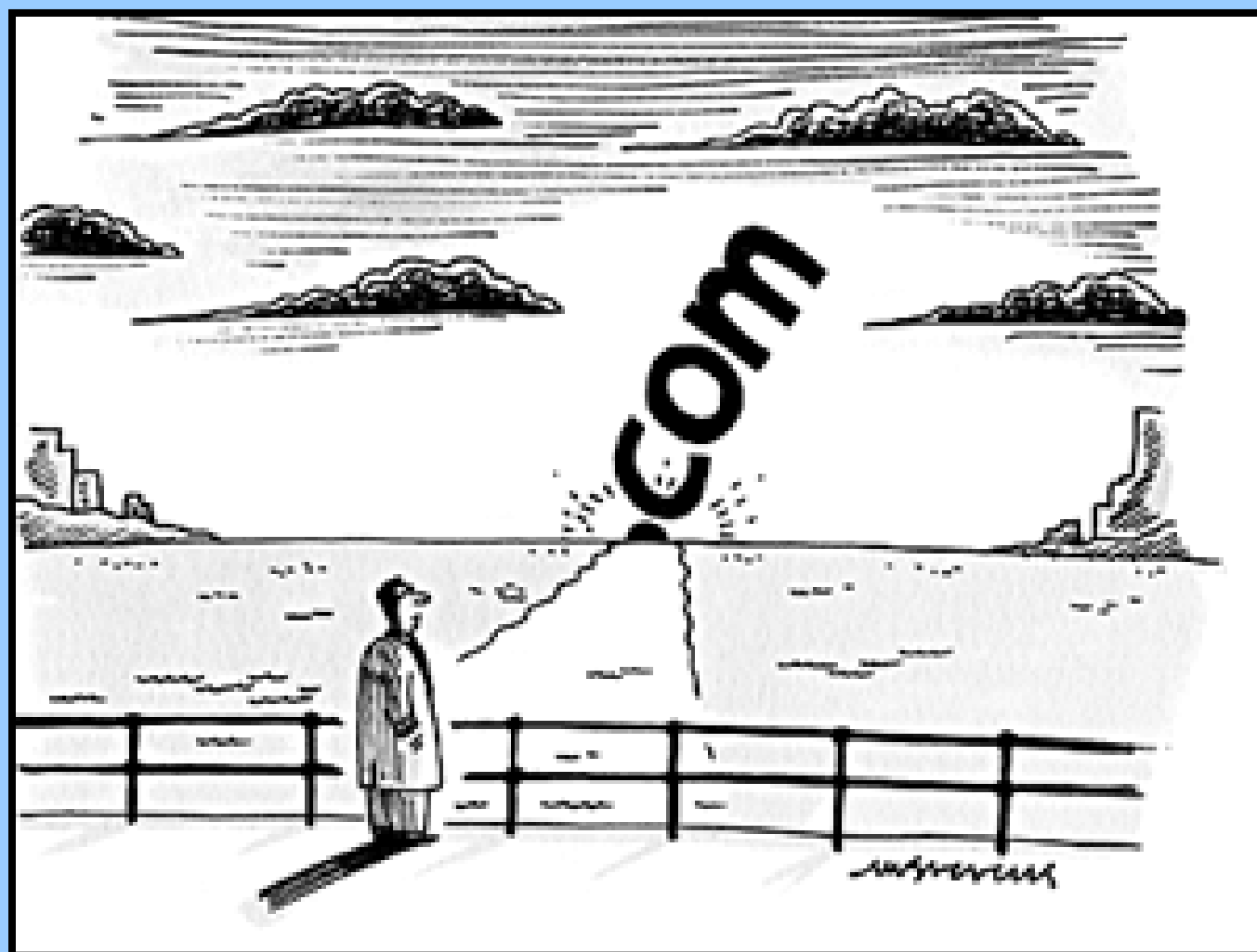
Figure 6

### After Plunging, PIT Liabilities to Grow Moderately

*California Annual PIT Liabilities, by Source  
(In Billions)*



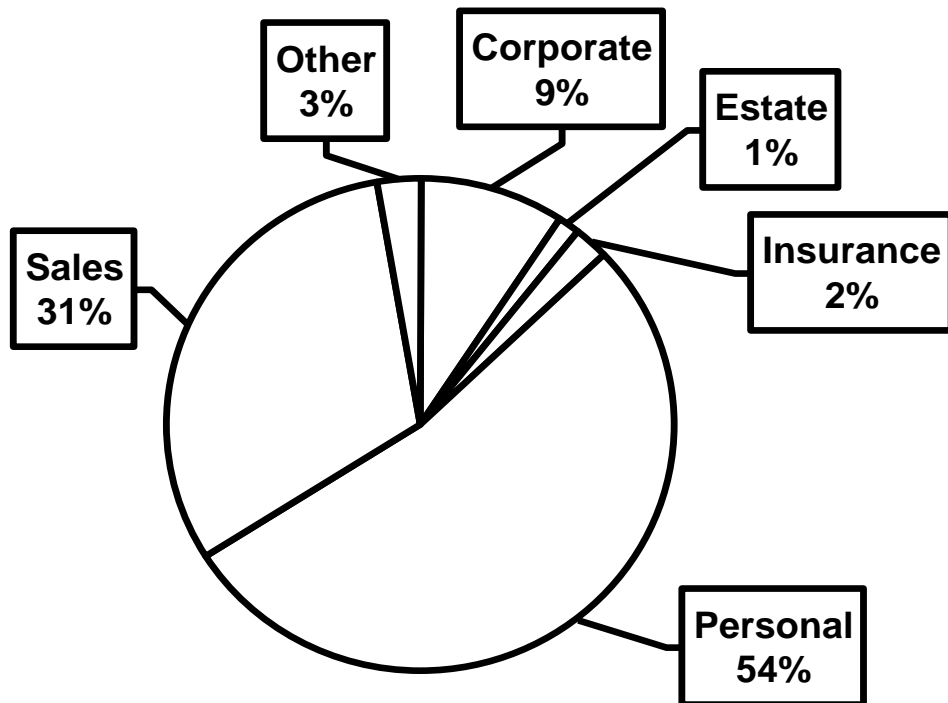
**In FY 2000-01, personal income taxes produced \$17 billion in revenue from capital gains (22% of general fund revenue).**



# *Budget Structure*

## General Fund Revenue Sources: 1997-98 - 2002-03

calborrow.xls  
source%



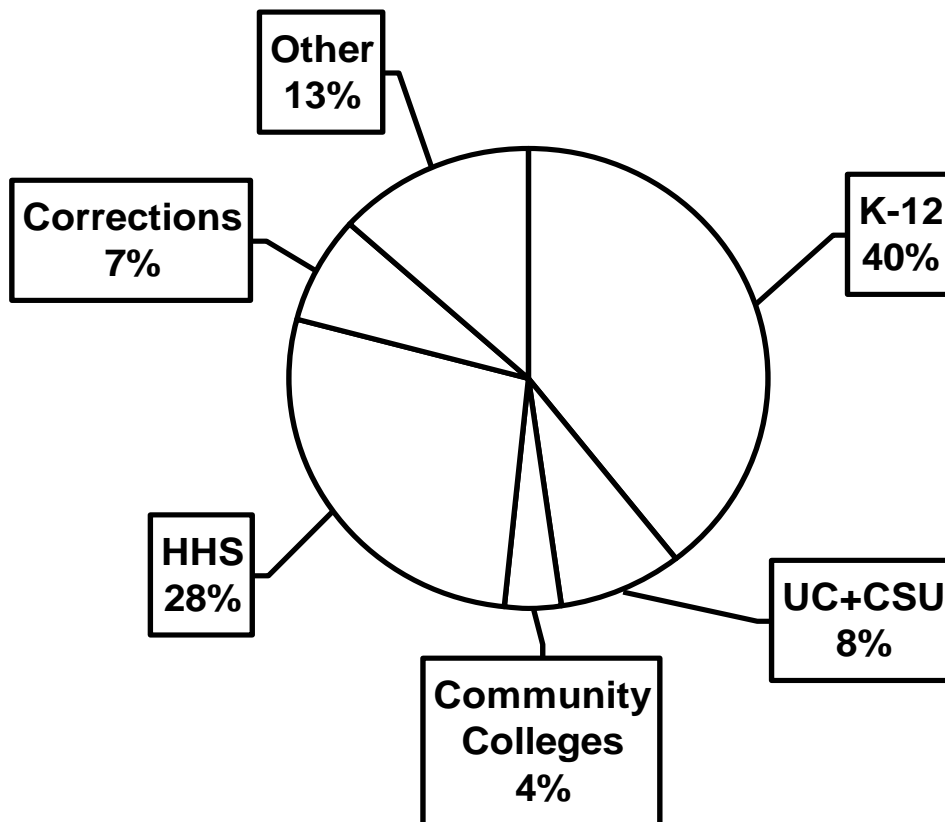
**Note: Excludes tobacco bond revenue in 2002-03.**



# *Budget Structure*

**General Fund Expenditure Categories: 1997-98 - 2002-03**

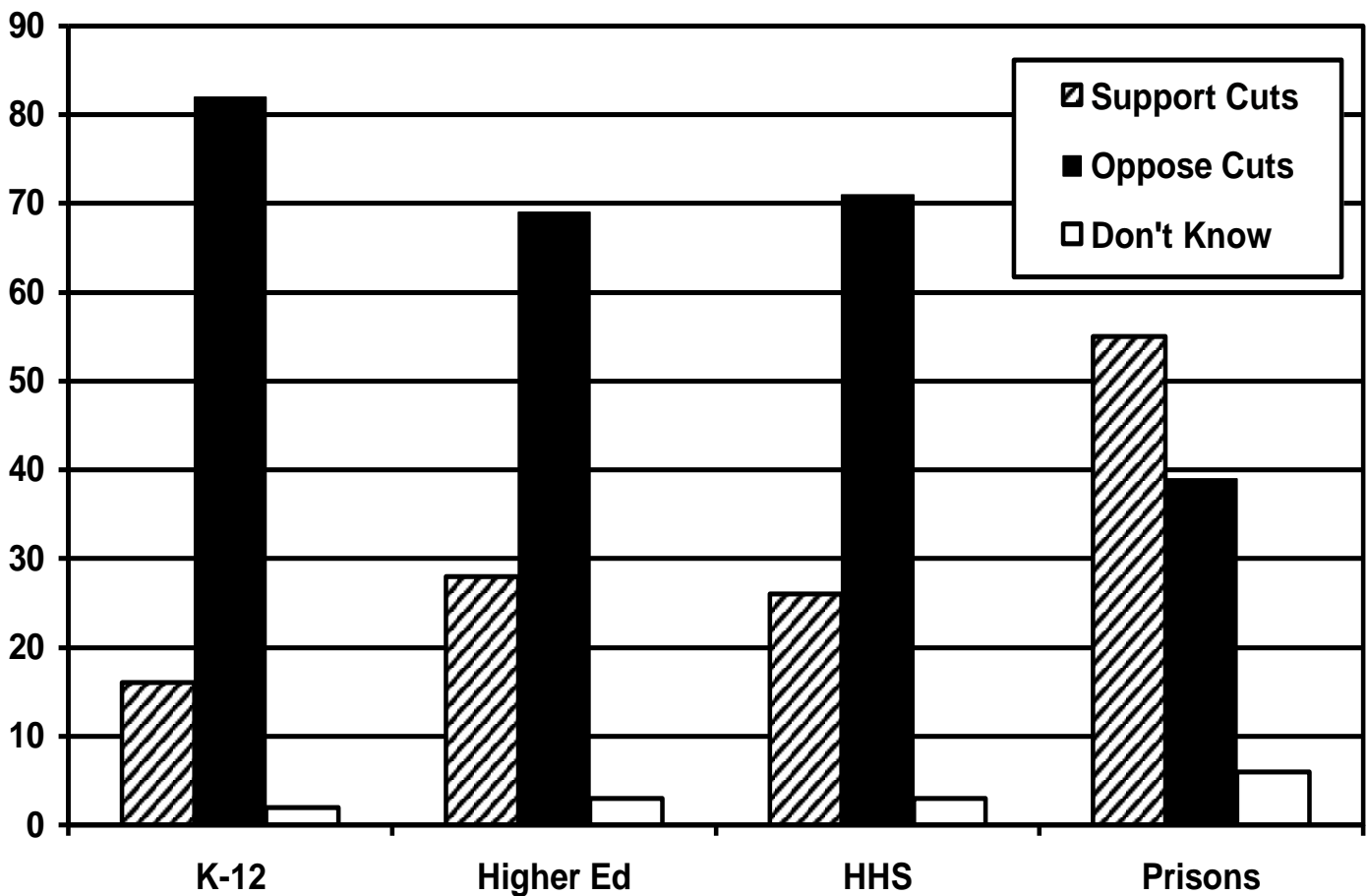
CPObudget2004.xls  
spend%



# Public Opinion (PPIC)

Opinions of Adult Californians Regarding  
Possible Spending Cuts (Percent)

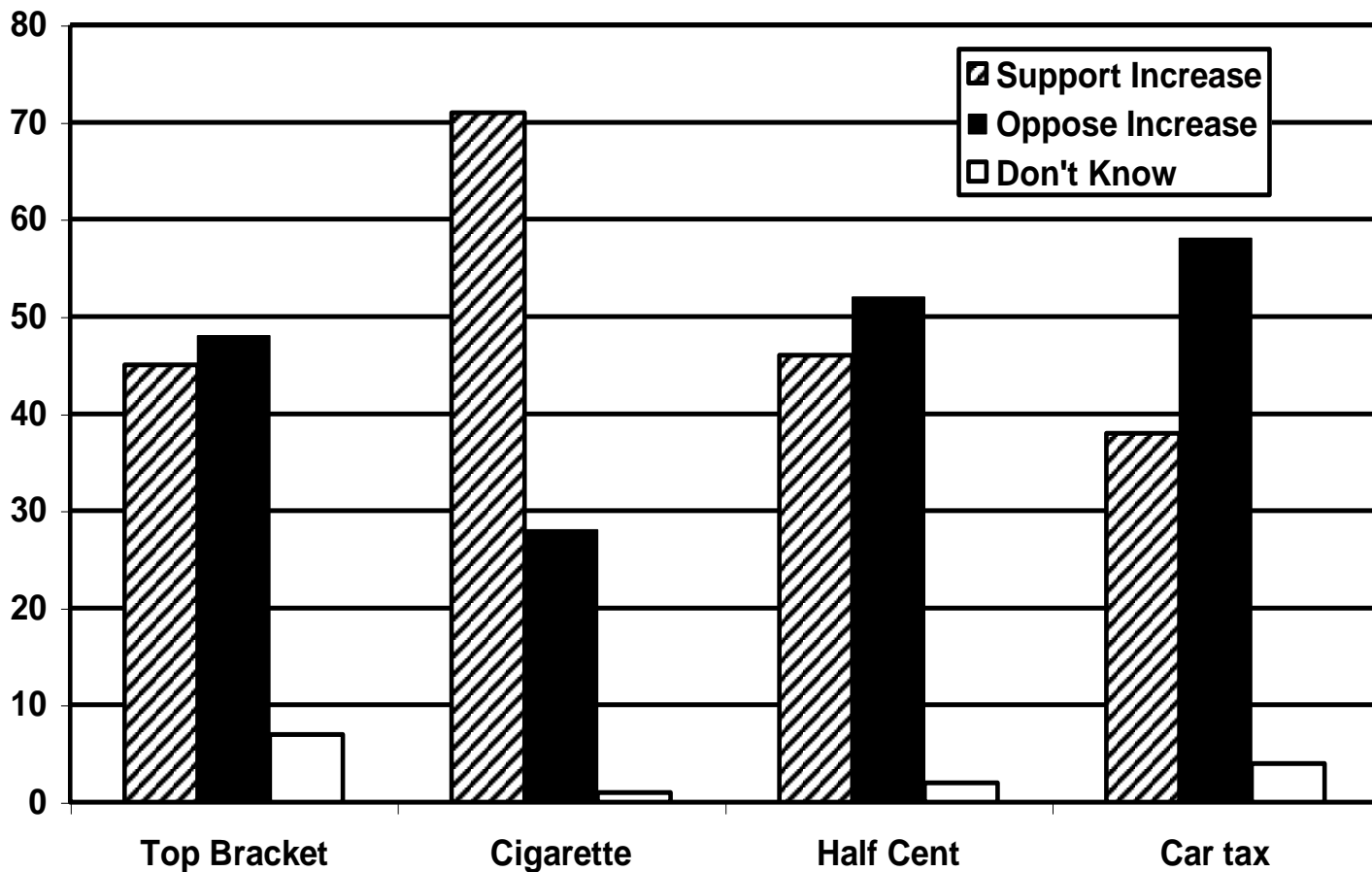
calopinion.xls  
spendcut



# Public Opinion (PPIC)

Opinions of Adult California Regarding  
Potential Tax Increases (Percent)

calopinion.xls  
taxup

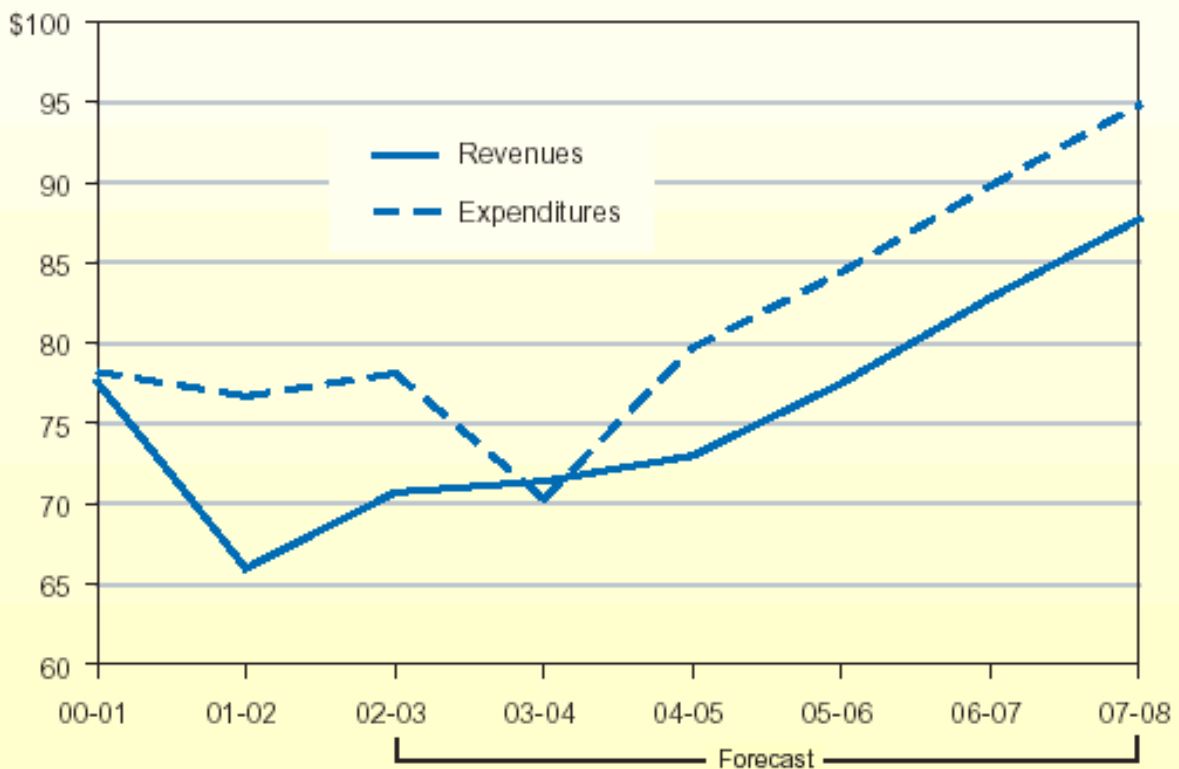


# Structural Deficit Estimated by LAO under Davis

Figure 7

**Persistent Gap Would Reemerge Under Governor's Plan**

*General Fund  
(In Billions)*



**Rand said same thing  
in mid-1990s!**

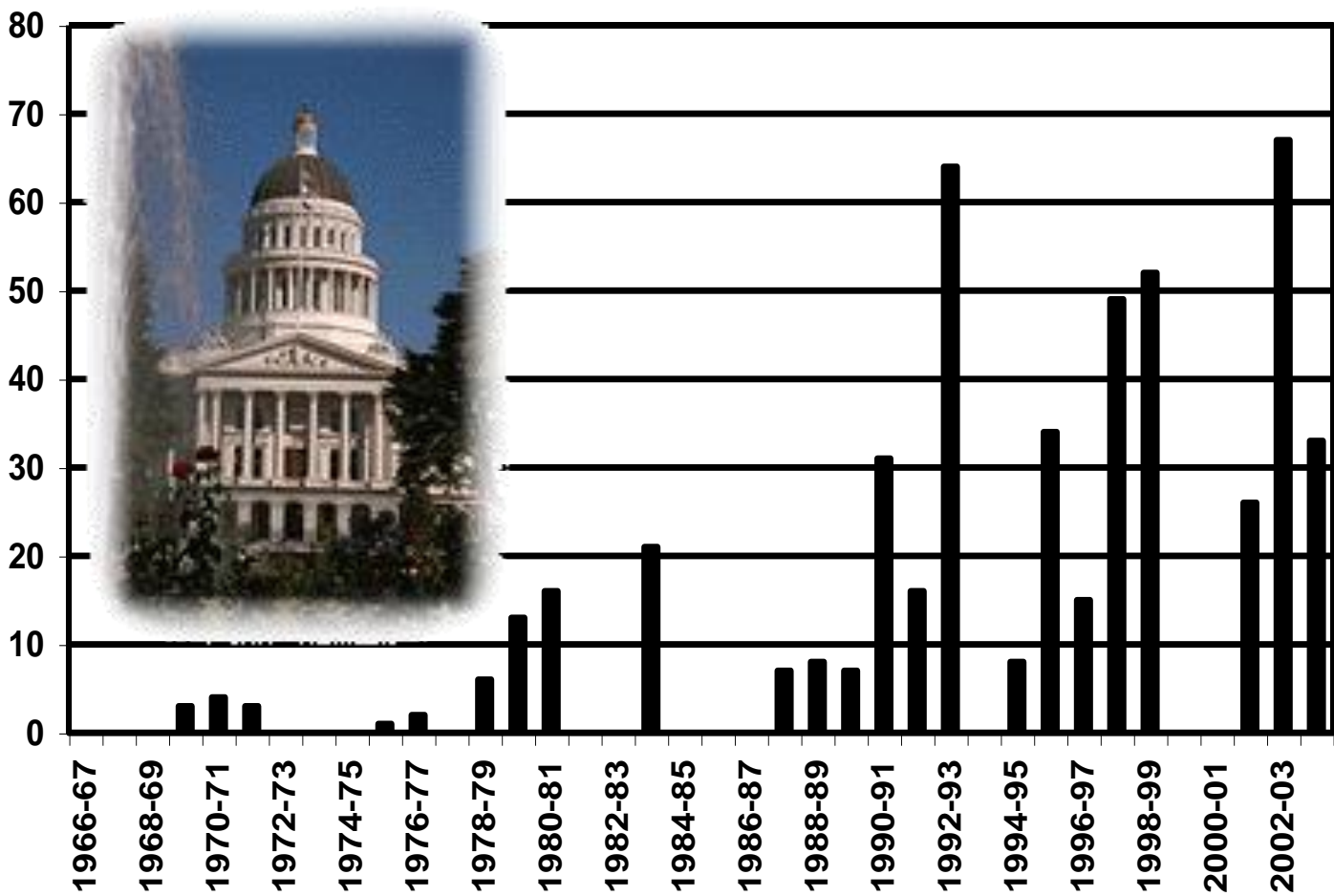




# *Legislative Gridlock?*

Days of Budget Delay Beyond June 30

CPObudget2004.xls  
DELAY2



# *Groping for a Solution*

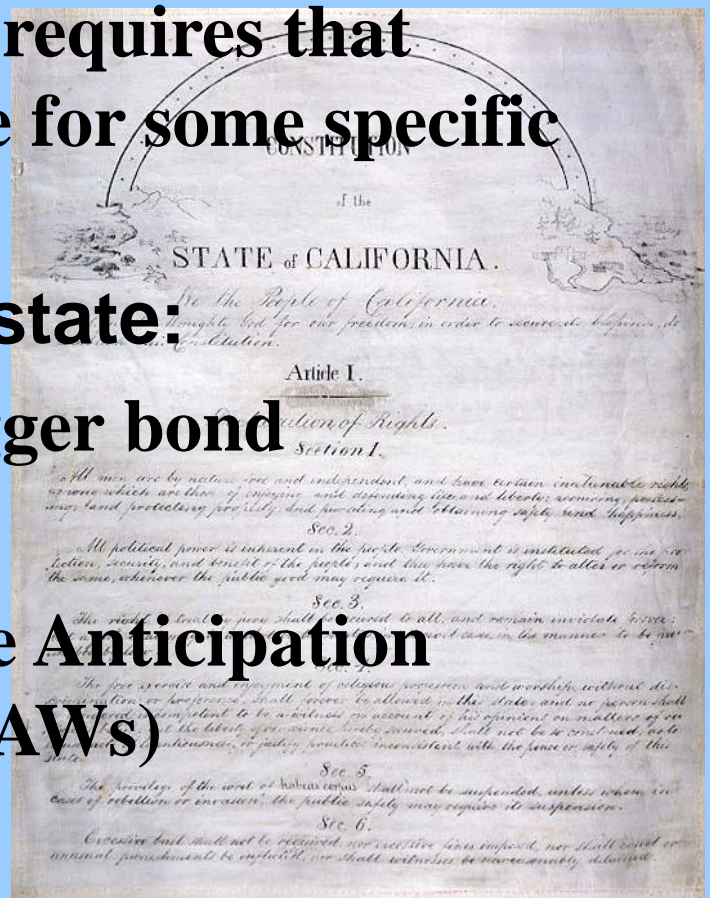
RAVENS  
© 1998 by the artist. All rights reserved.



# temporary *Groping for a Solution*



- Deficit financing for another year plus refinancing of accumulated debt
  - Constitution requires vote on (long-term) obligations of general fund
  - Constitution requires that borrowing be for some specific purpose
- 3 Options for state:
  - Schwarzenegger bond
  - Davis bond
  - New Revenue Anticipation Warrants (RAWs)



# temporary *Groping for a Solution*

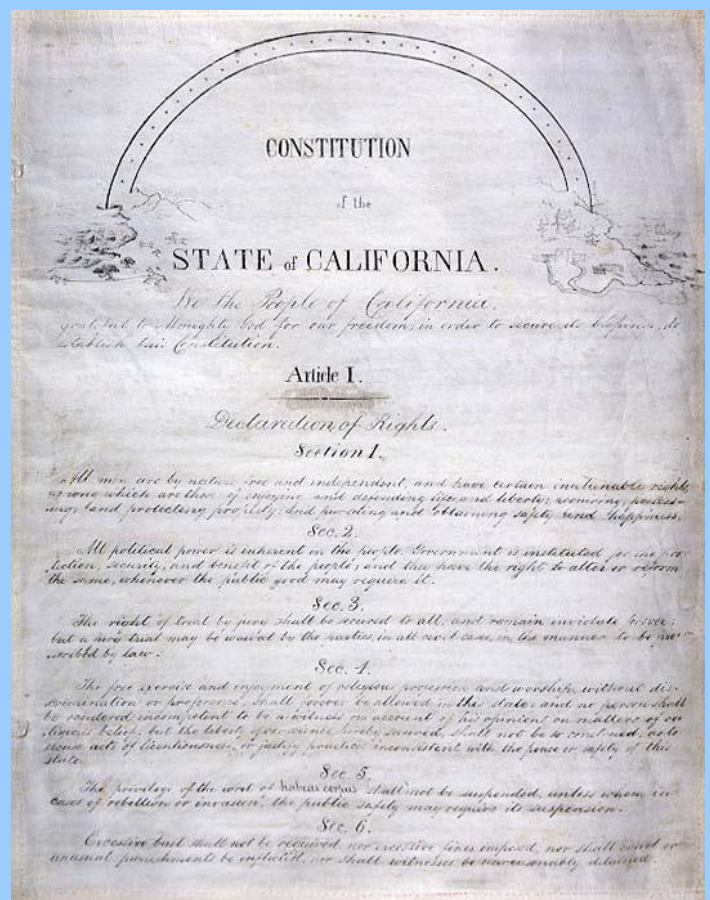
- **Option #1: Schwarzenegger \$15 billion bond on March 2004 ballot**
  - Ballot overcomes constitutional objection on need for vote
  - Companion “balanced budget” measure modifies constitution to overcome single purpose objection
  - Both measures must pass for bond to be floated
- **If bond fails to pass, move to Option #2**





# temporary *Groping for a Solution*

- **Option #2: Davis \$10.7 billion bond**
  - Annual vote of Legislature required to pay debt service (to avoid having the bond be considered “long term”)
  - Complicated “triple flip” adopted by Legislature to make bond not an obligation of the general fund





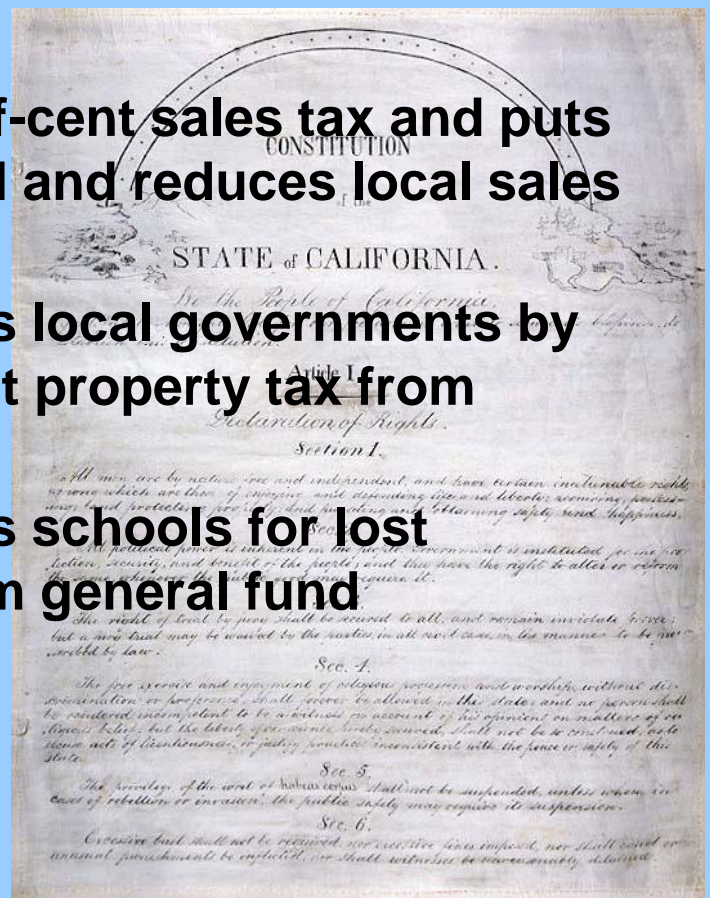
# temporary *Groping for a Solution*



- **Options**
  - **Are**
  - to**
  - the**
  - **Can**
  - Le**
  - ob**



- **Triple flip:**
  - **State enacts half-cent sales tax and puts into special fund and reduces local sales tax by half cent**
  - **State reimburses local governments by taking equivalent property tax from schools**
  - **State reimburses schools for lost property tax from general fund**



# temporary *Groping for a Solution*



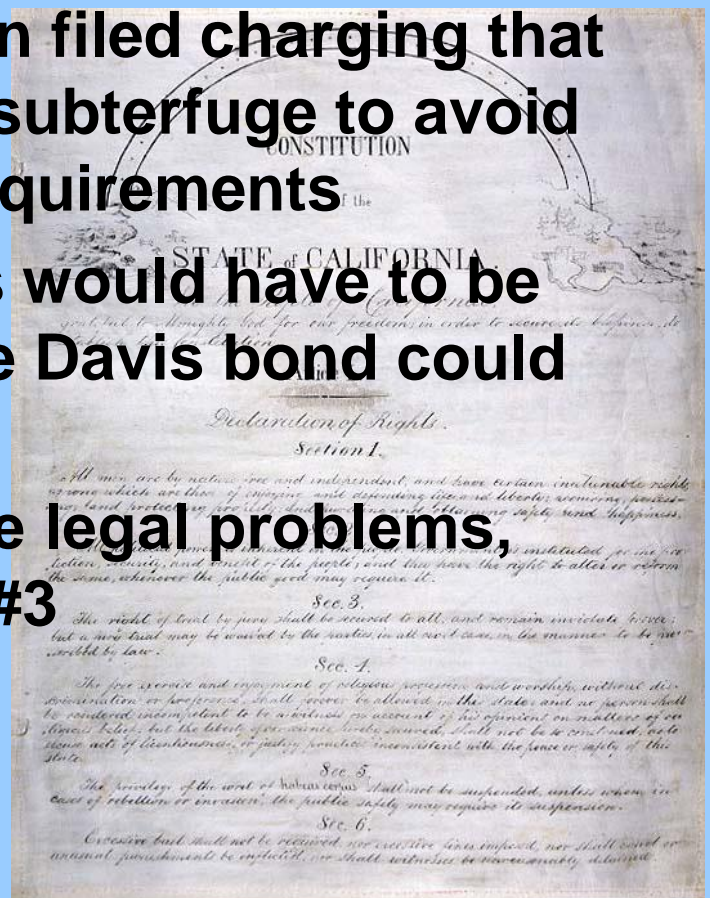
- **Options**

- Arranging to have the bond sold by the state
- Could be challenged by the state



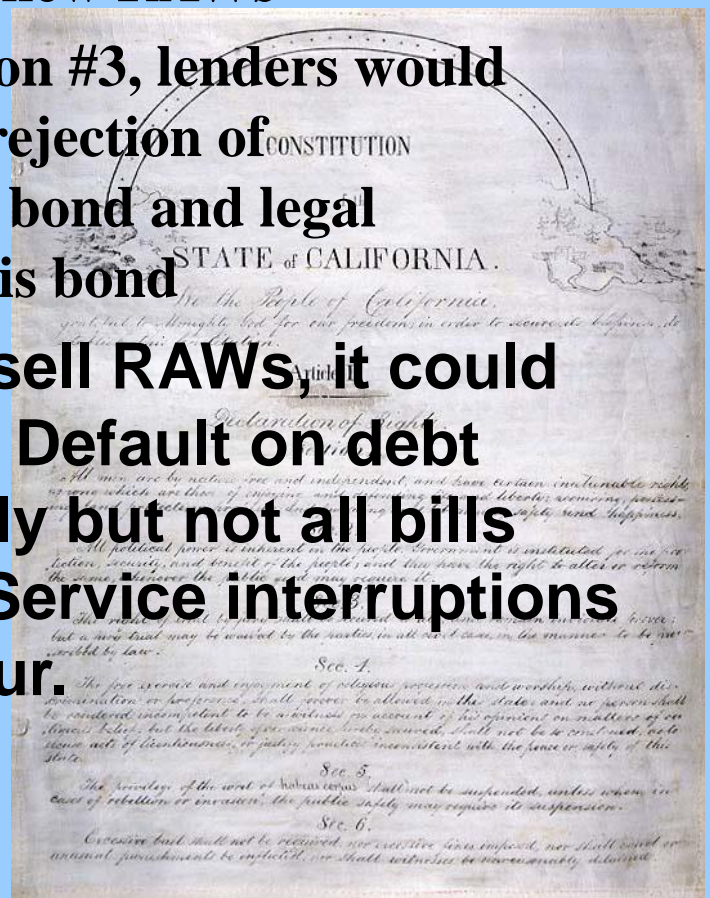
**and  
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- Lawsuit has been filed charging that Davis bond is a subterfuge to avoid constitutional requirements
- Legal objections would have to be overcome before Davis bond could be sold
- If can't overcome legal problems, move to Option #3



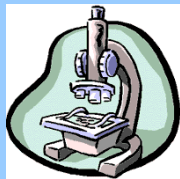
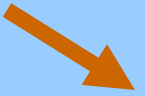
# temporary *Groping for a Solution*

- **Option #3:  
Revenue Anticipation Warrants**
  - State has \$11 billion in RAWs issued in June 2003 coming due + \$3 billion in Revenue Anticipation Notes (RANs)
  - Unless a budget is in place, potential lenders will not have a plan to examine for repaying the new RAWs
  - If we get to Option #3, lenders would have seen voter rejection of Schwarzenegger bond and legal challenge to Davis bond
- **If state failed to sell RAWs, it could run out of cash. Default on debt service is unlikely but not all bills would be paid. Service interruptions would likely occur.**



# What About UC & UCLA?

- *Governor proposes \$2.6 billion for UC from general fund*
- *Steady erosion from prior levels*
- *“Compact” with prior governor is dead*
- *Proposed budget is heavy on micro-management*
- *Overall UC budget is > \$18 billion but non-state monies cannot be diverted into basic educational program*
- *Proposed “UC premium” relative to CSU is about \$1.3 billion; roughly equivalent to a doubling of tuition revenue.*



6x

2x

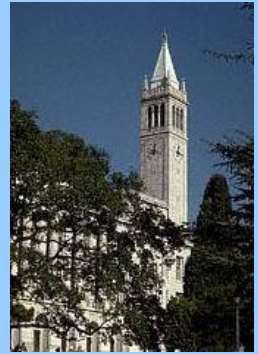




???

# UC or...

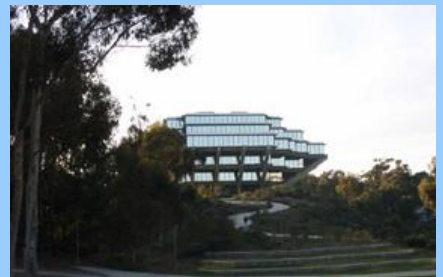
*Cal State-Berkeley*



*Cal State-Westwood*



*Cal State-La Jolla*



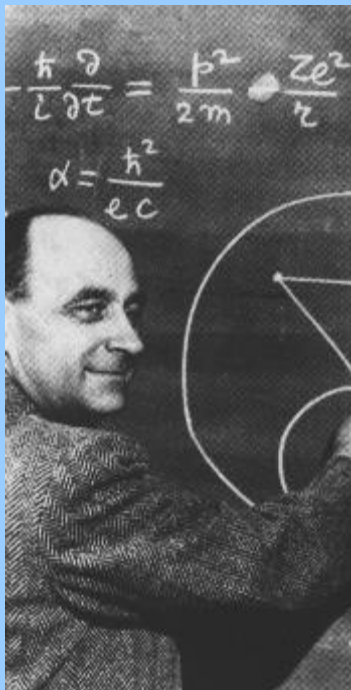
*Etc.*



???

**“Before I came here, I was confused about this subject. Now I am still confused, but at a higher level.”**

***Enrico Fermi***







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